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GREECE MACRO MONITOR

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Focus notes: Greece

Greece event risk timeline: *The crucial four weeks ahead*

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Highlights

Part I

Based on the information we have collected so far from both official and non-official sources we provide below an event risk calendar covering the four-week period until the end October 2011

We deem that period to be particularly important not only for the timely implementation of the July 21 EU Council decisions but, more generally, for forming market expectations about the evolution of the euro area debt crisis

In Greece, there are several difficult hurdles the government needs to overcome in the period ahead, so as to prevent a sudden stop in official financing and facilitate implementation of a second bailout deal agreed with official lenders in late July

Among others, these include the completion of the 5th EU/IMF program review, parliamentary approval of the 2012 budget law, the completion of a (voluntary) liability management transaction with private-sector bondholders (PSI) and a swift resolution of the finish collateral issue

At a euro area level, national governments will need to ratify the EFSF reforms agreed at the July 21 EU Council and, importantly, consider additional steps to deal with the lingering crisis

Part II

January-August state budget deficit undershoots MTFS target; revenue growth remains a concern.

Part I- The crucial four weeks ahead

September 27, 2011: **Greek Parliament approves key property levy.** The Parliament approved on September 27 a key tax on property, aiming to facilitate fulfillment of the government's fiscal deficit targets for this year and the next *(€17.1bn and €14.9bn, respectively)*. All governing party MPs and one independent MP voted in favor of the measure *(155 in-favor votes)*. The size of the tax will vary according to the official list of objective value of property and will be based on a number of social criteria so as to maximize its social fairness. It will be extended for two additional years, to 2014 from 2012 envisioned earlier, and it will be levied through electricity bills. According to the local press, the government expects the measure to yield annual revenues of up to €2.4bn (~ 1ppt-of-GDP), a forecast that has reportedly been challenged (as overly optimistic) by the EC/IMF/ECB troika. The ruling party PASOK has currently a majority of four seats in the 300-seat parliament. According to the results of a number of recent opinion polls circulated in the local press last weekend, main opposition party (ND) has widened its lead over the governing socially party (PASOK) to between 4 and 6ppts. However, no party would be able to form a single-partly government if elections were to take place today.

September 27, 2011: **Slovenia's parliament voted on EFSF reforms.** The 90-seat Slovenian Parliament approved EFSF amendments with 49 votes in favor. The voting took place a week after the Slovenian government collapsed following a vote of no confidence. A care-taker government headed by Prime Minister Borut Pahor is currently in place. President Danilo Turk is expected to dismiss parliament this week and call an early election for November or December.

September 28, 2011: **Finnish parliament to vote on EFSF reforms.** Reportedly, parliament is likely to give the green light to EFSF amendments even though no official agreement on the Greek/Finnish collateral issue has been reached yet. A number of European countries, including the Netherlands, Slovakia, Slovenia and Austria continue to oppose Finland's collateral demands, claiming that all Eurozone member states that take part in Greece's new bailout plan should be treated equally and face the same loan terms. Finland's coalition government is led by the (pro-European and right-leaning) National Coalition and the Social Democratic Party. The latter, headed by Finance Minister Jutta Urpilainen, agreed to join the government after April's general elections under the condition that collateral deals would be a key prerequisite for future bailouts. At face value, Finland's demand for some form of collateral in exchange for backing Greece's bailout seems non-negotiable at this stage, as any backtracking could probably lead to a collapse of the government and thus, early elections. In our view, a compromise solution should ultimately be expected. Yet, in case of disagreement, Finland could decide to opt-out from the EFSF, raising serious doubts about member state solidarity and the commitment of euro area authorities to deal with the ongoing debt crisis.

September 29, 2011**: Team of senior troika inspectors expected to return to Athens to resume talks on the 5th EU/IMF programme review.** In an effort to comply with official lender demands for a more rigorous implementation of the EU/IMF-agreed stabilization programme, the Greek government has already announced a range of additional fiscal measures in an effort to bridge identified budget shortfalls this year and the next and to ensure fulfillment of the previously-agreed deficit targets for the period 2013-2014. Reportedly, the size of the new austerity package for 2011-2012 is ca €7bn (~ 3.1ppt-of-GDP). Furthermore, a rebalancing of the government's medium-term fiscal plan in favor of more drastic expenditure-side adjustment is currently under consideration. Namely, the relative contribution of expenditure cuts in the overall targeted deficit reduction in 2011-2014 is likely to shift to 2/3rds from a broadly even contribution in the initial program. This appears to have been a key demand by official lenders. Reportedly, the troika now opposes further significant tax hikes, in view of the deepening economic recession and limited success by domestic authorities so far to reduce tax evasion and facilitate a more equitable shouldering of the overall adjustment burden. *(For a more thorough analysis on the new austerity measures announced so far by the government please see Eurobank EFG Research, Greece Macro Monitor, Sept 22, 2011, http://www.eurobank.gr/Uploads/Reports/Greece%20-%20September%2022%202011.pdf*). Note that in the statement released on September 25, the IMF said that it is seeking written commitments on Greece's austerity promises before sending inspectors back to Athens "most likely this coming week". Responding to a related journalist question yesterday, Mr. Venizelos said that the government was about to send shortly a written statement to official lenders describing the proposed measures. Although one should not entirely rule out the possibility of additional adjustment measures being requested by the troika *(i.e., beyond those announced already by the government*), we reiterate that the new austerity package significantly increases the chances for a successful completion of Greece's 5th programme review. The latter, appears to constitute a rigid prerequisite for the release of next loan tranche under the existing Greek Loan Facility.

September 29, 2011**: Germany's Bundesrat, the upper house in the parliament, votes on EFSF amendments.** Bundesrat is expected to endorse the proposed EFSF amendments, especially given the support of the opposition Social Democrats (SPD). Yet, recent press reports speculated a possible failure of German Chancellor Merkel's coalition government to secure its own parliamentary majority in passing the EFSF reform and thus, having to rely on support from opposition parties. Such a development could reportedly risk triggering an early election. Adding to the German Chancellor's woes, the poor results for her conservative Christian Democrat Party (CDU) and the Free Democrats (FDP) coalition partners in recent regional elections in Berlin have raised questions about the longevity of the government. Federal elections are not scheduled until autumn 2013.

***September 30, 2011*:** **Austria's parliament to vote on EFSF reforms**. The government's parliamentary majority is expected to secure approval of a broadening in EFSF powers, as per the July 21 EU Council announcements.

***Early October, 2011*:** **Binding commitment by private-sector bond holders wishing to participate in the PSI scheme expected by early-October.** Press reports suggested earlier this week that the indicative PSI participation rate has already reached around 85%, compared with an official participation target of (at least) 90%. A spokesman of the Institute of International Finance (IIF) stated two weeks earlier that many institutions had signaled to their home authorities their willingness to participate in the debt swap scheme, but they had not authorized the IIF to publish their names yet. Separately, the two stated-owned Greek banks, Agricultural Bank of Greece and the Postal Savings Bank announced last week their decision to participate. Notwithstanding any unforeseen developments – *related e.g. to a number of recent press reports suggesting that some euro area countries (including Germany) now want to amend the terms of the July 21 EU Council deal and impose bigger losses on bondholders* - we expect the PSI deal to be completed successfully by end-October. Note that the involvement of private sector bond holders in a second bailout plan for Greece was a key demand put forth by Germany, on the basis that it would ensure a more equitable burden sharing between the official and the private sector. In our view, the benefits of a successful PSI would be significant, not only for the sovereign borrower in terms of cash debt relief and an improved solvency outlook, but also for private-sector creditors in view of the positive NPV pickup they are likely to realize *(A thorough analysis of the impact of the new bailout package on Greece's public debt ratio, can be found in Eurobank EFG Research, Greece Macro Monitor, August 2, 2011,* http://www.eurobank.gr/Uploads/Reports/Greece%20August%202%202011.pdf *).*

Early October, 2011: **Dutch parliament to vote on EFSF reforms**. A debate in parliament early last week showed that the majority of lawmakers remain skeptical, though they are broadly expected to back the EFSF amendments. Prime Minister Mark Rutte's minority centre-right coalition of Liberals and Christian Democrats depends on the support of the euro-skeptic Freedom Party for an endorsement of the proposed reforms.

October 3-4, 2011: **Eurogroup/ Ecofin meeting in Luxembourg**. The disbursement of the next loan tranche to Greece is not likely to be an issue on the agenda. *(A European Commission spokesman said earlier today that the finance ministers of the euro zone member states will hold an emergency meeting some time in October to discuss "the situation of Greece and consider the disbursement of the next tranche")*. Separately, potential amendments to the July 21 EU Council decisions may reportedly come under scrutiny during the October 3-4 Eurogroup/ Ecofin meetings. According to a number of *(unconfirmed)* press reports, euro area authorities have already started working behind the scenes on a more comprehensive plan to resolve the debt crisis. That could *reportedly* include, among others: **i)** a recapitalization of European banks, probably through funds provided by the EFSF, **ii)** the establishment of a "firewall" around Greece, Portugal and Ireland (as well as larger EMU-periphery economies including Spain and Italy) to prevent a wider contagion from the lingering debt crisis and **iii)** a further expansion in the firing-power of EFSF mechanism by *e.g.* leveraging it through the ECB or through expanded guarantees to the tune of €2tn. Along these lines, several newswires and, importantly, ECB's Bini Smaghi, confirmed that a plan to leverage the EFSF is progressing. According to CNBC, the plan would involve shoring up bank capital levels by using the EFSF to capitalize a special purpose vehicle that would be created by the European Investment Bank. The SPV would issue bonds and then use the funds to purchase the debt of distressed European states. These bonds could then be used as collateral for borrowing from the ECB. However, purported political disagreements over the feasibility and effectiveness of the measures under discussion, suggests that any such package is unlikely to be announced any time. French Finance Ministry and Central Bank Governor Noyer denied any such plans and, instead, continued to insist that there is not need for bank recapitalizations. Meanwhile, EFSF amendments are still awaiting approval by several EU national parliaments, while the scope of any further expansion in the EFSF size appears to be limited for the time being. This holds especially in the wake of a recent ruling of the German Constitutional Court. Specifically, the court decided last month that any action potentially impacting the German budget –inclusive of new rescue mechanisms- would need the consent of the parliament's budgetary committee, whereas the government was previously only required to inform parliament. Separately, the German Ministry of Finance opposed openly the option of the ECB lending to the EFSF directly, on the basis that this would violate the Treaty's prohibition of 'direct financing' of government entities. S&P raised further doubts about the feasibility of the aforementioned plans, warning that any decision to bolster the EFSF could potentially trigger rating downgrades of either the EFSF itself or some of its Eurozone guarantors.

Early-to-mid October, 2011: **5th EU/IMF review of Greece's economic stabilization programme likely to be completed.** A positive completion of the 5th programme review constitutes a rigid prerequisite for the release of next €8bn loan tranche under the existing Greek Loan Facility (€5.8bn from the European Union and an additional €2.2bn tranche from the IMF).

October 5, 2011: **Strikes in Greece.** ADEDY (the Civil Servants' Confederation) and GSEE (the General Confederation of Greek Workers) trade unions are due to hold a one-day strike action against the government's austerity measures.

October 6, 2011**: ECB policy meeting; the last under Jean-Claude Trichet's presidency.** A 25bps rate cut can not be ruled out, especially in view of increased downside risks to the Eurozone's economic outlook and persisting tensions in financial markets. Recent higher-frequency real activity and sentiment indicators from most euro area economies (including Germany and France) signal a significant slowdown in the pace of economic activity in the period ahead. Indicatively, the PMI index for euro area service sector moved in September into contractionary territory for the first time in two years. In a similar vein, the corresponding PMI manufacturing survey revealed that new orders dropped to levels last witnessed during the 2008/09 recession. In an effort to help stabilize markets, the ECB is also likely to extend the 6-month full-allotment funding operations beyond early 2012 and probably reintroduce long-term tenders (up to 1-year). A restart of the covered bond purchase program that ended last year may also be discussed at the October policy meeting. The Euribor interest rate future is already pricing-in a higher-than-even probability for a 25bps rate easing at the October meeting and a cumulative 50bps by the end of the current year.

October, 13-14, 2011: **Tentative deadline for approval of EFSF reforms by EU-17 national parliaments**. A unanimous ratification of EFSF amendments by all EU-17 national parliaments is likely to be delayed beyond mid-October. The head of Slovakia's junior government coalition party Freedom and Solidarity party said earlier this month that the country's national parliament is not likely to vote on the proposed EFSF reforms before December at the earliest. This followed recent comments by Slovak Prime Minister Iveta Radicova suggesting that she wants to wait for all other euro area member states to approve the EFSF reforms, before a vote takes place in the national parliament. As of September 28, national parliaments in only seven of the EU-17 member states - France, Belgium, Italy, Spain, Luxembourg, Slovenia and Greece - have approved the EFSF amendments agreed at the July 21 EU Council. At the latest G20 meeting on September 22, euro area officials vowed to have the expanded EFSF in place before the next summit due on October 14-15.

October 14, 2011: **Greece has €2bn in 26-wk T-bills redemption.** The next major headwind in terms of debt repayments does not come until mid-December (€1.17bn on December 19, followed by €5.2bn on December 30). In the meantime, the government still needs to continue to finance its primary deficit (e.g. pay pensions and civil servant wages) and meet interest rate payments. As such, a swift disbursement of the next EU/IMF loan tranche is crucial for avoiding unforeseen disruptions in government financing.

October 14-15, 2011: **G20 Finance Ministers meet in Paris.**

Mid-October, 2011: **Possible approval of 6th EU/IMF loan tranche to Greece**. A swift disbursement of the 6th EU/IMF loan trance to Greece is crucial for avoiding unforeseen State funding problems. Reportedly, state cash reserves are nearing depletion while Deputy Finance Minister Filippos Sachinidis stated recently that the country has cash reserves until mid-October.

Mid-October, 2011: **PSI results expected.** A successful completion of the PSI scheme (90% participation) would provide additional funding to Greece (€54bn until mid-2014 and €135bn until 2020).

October 19, 2011: **Strikes in Greece.** ADEDY (the Civil Servants' Confederation) and GSEE (the General Confederation of Greek Workers) trade unions are due to hold a one-day strike action against the government's austerity measures.

October 17-18, 2011 EU Summit **in Brussels**. The successor to Juergen Stark on the ECB Executive Board is expected to be included on the agenda.

October 21, 2011: **Greece has €1,625bn in 13-wk T-bills redemption.**

October 31, 2011**: ECB President Jean-Claude Trichet's eight-year term expires.** Bank of Italy Governor Mario Draghi to be appointed as the next ECB President.

Late October, 2011: **Greek parliament votes on the 2012 Budget**. Following an extraordinary cabinet meeting earlier this month, Greek Finance Minister Evaggelos Venizelos announced that the government decided to bring forward the parliamentary vote on its 2012 budget. The draft budget will be submitted to parliament on October 3, with a vote expected to take place by the end of October (instead of end December in recent years). Approval of the new budget in Parliament is a key prerequisite for the activation of a new bailout programme for Greece.

Part II January-August state budget deficit undershoots MTFS target; revenue growth remains a concern

Data for the execution of Greece's State budget in the period January-August 2011 showed a 22.1% YoY rise in the overall central government deficit to ca €18.1bn. This resulted in an undershooting of the €0.87bn eight-month target envisioned in the government's medium-term fiscal plan (MTFS). Net ordinary budget revenue in the first eight months declined by 5.3% YoY to ca €30.7bn, coming within reach from the corresponding MTFS target. Income tax receipts declined by 7.9%YoY and VAT revenue eased by 0.3%YoY over the respective period. More specifically, VAT revenues from fuel and tobacco products increased by 15.5% YoY and 8.8% YoY, respectively, while these from other goods declined by 3.5% YoY.

The main reasons behind the weak revenue performance in the eight first months of 2011 included, among others: **a)** a more-severe-than-expected domestic recession, **b)** the non-repetition of an extension granted for the payment of prior year road duties, which inflated State budget receipts in January 2010, **c)** lower receipts from the withholding personal income tax, **d)** a 12.9%YoY increase in tax refunds (to €3.41bn or ca 1.5ppt-of-GDP) in January-August 2011, from to the clearance of 2010 personal income statements. Note that the government introduced last year a scheme linking tax refunds with the volume of retail sales receipts submitted by tax payers. The government has already modified the tax refunds scheme in the calculation of the 2011 taxable income, in an effort to reduce tax returns, and **e)** lingering disfunctionalities in the tax collection mechanism and still widespread tax and contributions evasion *(~4ppt-of-GDP per annum, according to Bank of Greece estimates*).

For the current year as a whole, the State budget targets a 5.6%YoY increase in net ordinary revenue. To achieve the latter target, the government needs to generate additional revenue (mainly from taxation) of ca €23.36bn or €5.84bn per month for the remaining four months of 2011. The target remains ambitious, but we expect budget execution to improve considerably in the following months, thanks to a range of new fiscal measures that have been in effect since the beginning of September as well as a new austerity package worth €7bn (~3ppt-of-GDP) to be shortly announced by the government (please see also page 1 of this document).

On the expenditure side, total ordinary budget outlays grew by 8.1% YoY in January-August 2011 to ca €47.4bn. This was mainly on the back of a 4.5%YoY increase in primary expenditure over the corresponding period as a result of: **a)** higher transfers (by €1.70bn from a year earlier) to social security funds due to lower social security contributions, **b)** higher grant (by €0.32bn) to the employment agency for the payment of unemployment benefits and **c)** higher expenditure (€0.85bn) for the settlement of outstanding hospitals liabilities to various suppliers.

Separately, interest payments increased by 19.4% YoY year-to-August 2011. In the public investment budget (PIB), total revenue increased by 43.4% YoY to €1.88bn, while expenditure declined by €3.26bn or -37.6%YoY in January-August 2011.

Table 1: January-to-August Budget execution					
Ordinary Budget	Jan-August 2010 (€bn)	Jan-August 2011 (€bn)	Jan-August 2011 (%YoY)	2011 MTFS target Jan-August (€bn)	Annual target (%YoY)
1. Net Revenue (a-b-c)	32.40	30.69	-5.3	30.70	5.6
a. Gross revenue	35.41	34.08	-3.8	33.87	2.9
b. NATO revenue	0.01	0.02		0.02	207.7
c. Tax refunds	3.02	3.41	12.9	3.19	-23.7
2. Expenditure (α+β+γ+δ+ε+στ)	43.85	47.40	8.1	47.51	5.7
α. Primary expenditure	32.60	34.05	4.5	33.79	0.7
β. Transfer to hospitals for the settlement of part of past debt	0.23	0.43	88.7	0.45	19.9
γ. NATO expenditures	0.01	0.01	-35.7	0.01	73.9
δ. Military procurement	0.23	0.14	-42.2	0.55	47.5
ε. Forfeiture of Government Guarantees	0.09	0.03	-72.2	0.05	54.5
στ. Interest costs	10.68	12.75	19.4	12.65	21.0
Public Investment Budget (PIB)					
3. Revenue	1.31	1.88	43.4	1.75	27.8
4. Expenditure	4.68	3.26	-30.3	3.91	-10.6
5. Budget deficit (-) or budget surplus (+) (1-2+3-4)	-14.81	-18.09	22.1	-18.97	-3.9

Source: Ministry of Finance

Table 4: Greece-Key Indicators	Last	ytd	2010	2009
Macroeconomic indicators				
GDP growth (%YoY)*	-7.3 (Q2 11)	-2.8	-7.4	-2.1
CPI	1.7 (August 11)	-1.0	4.7	1.2
Unemployment rate	16.0 (June 11)	37.7	14.8	10.2
Labor Cost (%YoY)	-5.2 (Q2 11)	-11.7	-4.2	3.6
Economic Sentiment (index level-period average)	73.7 (August 11)	74.6	75.1	76.3
Consumer-vigor indicators				
Private consumption in constant prices (% YoY)	-6.1 (Q2 11)	1.1	-8.6	-2.2
Retail sales excl. fuels & lubricants volume (% YoY)	-13.1 (June 11)	-25.5	-23.7	-0.7
New private passenger car registrations (% YoY)	1.8 (August 11)	97.7	-61.9	22.0
Consumer confidence (index level - period average)	-71.2 (August 11)	-70.9	-63.4	-45.7
Retail trade expectations (index level - period average)	-39.6 (August 11)	-34.5	-33.7	-15.4
Industrial-activity indicators				
Industrial production (% YoY)	-2.8 (July 11)	11.6	-5.2	-6.8
Capacity utilization in industry (index level -period average r	67.7(June 11)	68.2	68.6	70.5
Industrial confidence (index level - period average)	-19.3 (August 11)	19.0	-22.5	-28.4
Manufacturing PMI (index level - period average)	43.3 (August 11)	43.8	43.8	45.4
Construction sector & other investment-activity indicators				
Cross fixed capital formation in constant prices (% YoY)	-17.9 (Q2 11)	-22.2	-7.6	-15.1
Housing investment in constant prices (% YoY)	-21.9 (Q2 11)	-14.1	-18.5	-24.8
Other construction in constant prices (% YoY)	-16.6 (Q2 11)	-39.6	-11.7	-4.7
Private building permits volume (% YoY)	-37.4 (Feb 11)	-67.8	-8.6	-22.6
Construction confidence (index level - period average)	-77.4 (August 11)	-69.6	-55.4	-39.5
Balance-of-Payments statistics *(€-terms)*				
Tourism revenues (% YoY)	16.7 (July 11)	1364.2	21.0	-10.2
Transportation revenues (% YoY)	-16.2 (July 11)	-2.4	-7.7	-7.9
Customs-based statistics *(€ - terms)*				
Goods exports (% YoY)	44.1 (July 11)	4.0	43.8	-3.2
Goods exports to EU (% YoY)	14.0 (July 11)	1.6	17.1	4.2
Goods exports to non-EU countries (% YoY)	98.7 (July 11)	8.4	89.8	-14.4
Goods imports (% YoY)	-15.1 (July 11)	-21.3	-6.7	1.0
Goods imports from EU (% YoY)	-5.8 (July 11)	-7.8	-15.7	-7.8
Goods imports from non-EU countries (% YoY)	-25.6 (July 11)	-22.8	8.0	1.1
Domestic MFI credit to domestic enterprises & households *(oustanding balances)*				
Private sector (% YoY)	-1.2 (July 11)	-1.4	0.0	1.5
Enterprises (% YoY)	0.6 (July 11)	-0.8	1.1	1.0
Households (% YoY)	-2.7 (July 11)	-1.8	-1.2	1.9
Housing loans (% YoY)	-2.1 (July 11)	-0.7	-0.3	3.7
Consumer credit (% YoY)	-5.9 (July 11)	-5.2	-4.2	-1.6
Private-sector credit outstanding (% GDP) **				
Total domestic enterprices & households	112.5 (July 11)	-	112.1	106.6
Domestic households	51.3 (July 11)	-	51.4	50.2

Source: Hellenic Statistical Authority, Bank of Greece, ECOWIN, AMECO, Eurobank EFG Research
* Non-seasonally adjusted GDP data were used for columns Last and ytd. Seasonally adjusted data not available yet (September 8, 2011)

** 4th Review of the EC/ECB/IMF adjustment programme forecasts for 2010 (€ 230 bn) and 2011(€ 226 bn) were used.

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